

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6107

BILL NUMBER: HB 1816

NOTE PREPARED: Jan 31, 2005

BILL AMENDED:

SUBJECT: Income Tax Credit for Property Tax Paid.

FIRST AUTHOR: Rep. Smith V

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: Increases from \$18,600 to \$30,000 the income eligibility level for the income tax credit for property taxes paid on homesteads in Lake County. Reduces the amount of the credit funded by riverboat admissions taxes in the county.

Effective Date: January 1, 2005 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to incorporate the change to this credit. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Credit Expansion and Reimbursement:* The bill would result in a revenue loss of an estimated \$5.2 M annually to the state General Fund due to: (1) the expansion of the credit to more Lake County tax filers; and (2) the provision reducing local reimbursement of the credit from 100% to 60%. Thus, the state General Fund would incur 40% of the tax credit cost. This impact would begin in FY 2006.

Background: Tax Credit: The bill expands eligibility for the Lake County property tax circuit breaker by increasing the maximum earned income limit from \$18,600 to \$30,000 beginning in tax year 2005. In 2002, 24,717 filers claimed \$7.1 M in credits under the Lake County property tax circuit breaker. The estimated impact of the income eligibility change is based on a circuit breaker model employing U.S. Census Bureau data relating income and house values of owner-occupied households in Lake County. This model estimates that the income eligibility changes would result in about 21,700 additional taxpayers accessing the circuit breaker, and about \$5.9 M in additional tax credits claimed. Of the total estimated \$13.0 M in AGI Tax credits under the expanded program, 40% (or \$5.2 M annually) would not be reimbursed by local units. Since the circuit breaker changes are effective beginning in tax year 2005, the fiscal

impact would begin in FY 2006.

Under current statute, the Lake County property tax circuit breaker is available to homeowners in Lake County who have earned income of less than \$18,600. A homeowner who has earned income of less than \$18,000 is entitled to a credit equal to the lesser of \$300 or the amount of property taxes paid on the qualified homestead. The tax credit phases out for homeowners with earned income between \$18,000 and \$18,600. For every dollar of income more than \$18,000, the tax credit is reduced by \$0.50 until the credit is \$0 for homeowners with an earned income exceeding \$18,600.

Tax Credit Reimbursement: The bill requires that 40% of the cost of the circuit breaker be paid by the state beginning with tax year 2005 credits. Under current law, the entire cost of the circuit breaker is reimbursed to the state General Fund from Riverboat Admission Tax revenue distributed to Lake County, Gary, Hammond, and East Chicago. (Before July 1 of each year, the Department of State Revenue determines the amount of tax credits claimed in the preceding tax year under the circuit breaker and transfers Admission Tax revenue to the state General Fund.) Fifty percent of the tax credit cost is reimbursed by Lake County, with Gary, Hammond, and East Chicago each reimbursing 16.67% of the tax credit cost.

Explanation of Local Expenditures: The bill requires that these local units reimburse only 60% of the cost of tax credits claimed under the circuit breaker. Lake County is required to reimburse 30% of the tax credit cost while Gary, Hammond, and East Chicago each must reimburse 10% of the tax credit cost. The remaining 40% of the tax credits would not be reimbursed. Table 1 below provides a comparison of the required reimbursement percentages under current law and as proposed in the bill; and Table 2 below compares reimbursement of potential credits under the current and proposed formulas.

Table 1 - Current and Proposed Reimbursement

Local Unit	Current	Proposed
Lake County	50%	30%
Gary	16.67%	10%
Hammond	16.67%	10%
East Chicago	16.67%	10%
State General Fund	0%	40%

Table 2 - Comparison of Current and Proposed Reimbursement Cost

Local Unit	Current	Proposed
Lake County	\$6.5 M	\$3.9 M
Gary	2.17 M	1.3 M
Hammond	2.17 M	1.3 M
East Chicago	2.17 M	1.3 M
State General Fund	0	5.2 M
Total	13.0 M	13.0 M

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Lake County, Gary, Hammond, East Chicago.

Information Sources: OFMA Income Tax database 2000-2002; U.S. Census Bureau, Income and Household data.

Fiscal Analyst: Jim Landers, 317-232-9869.